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**Toward the Pacific Community: American Trade Policy in Asia**

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Good evening, everyone. Thank you very much, and let me express my gratitude to the Asia Society and Ambassador Platt for this chance to speak with you on our trade agenda in Asia.

This topic, of course, is no small one. The trade agenda itself is very broad, ranging from our response to the Asian financial crisis, to the effort to integrate China into the world economy, economic reform in Japan, the APEC meetings and much more. And of course trade policy is only part of a broader Asian agenda, which includes such issues as weapons proliferation, regional security, climate change, and the advance of human rights.

So let me begin by putting our work as trade negotiators in its context.

**SHARED DESTINY**

America is a Pacific nation. Thus as Americans we have a vital interest in the security, stability and prosperity of the Pacific Rim; and we can see that in the events of this century. This is the enduring foundation beneath our Asian policies. With it as a guide:

We make an unwavering commitment to ensure peace and security: as we have from the Open Door era through today, with our Security Treaties with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand; our engagement with China and our unofficial relations with Taiwan; and our close relationship with ASEAN.

We promote the universal values of human rights, individual freedom, and the rule of law: as Jose Rizal wrote, the strongest assurances any nation can have of domestic peace and harmony.

We support education and intellectual exchange -- from the Chinese scholarship program inaugurated in 1908 to the 260,000 Asian students attending our colleges and universities.

We seek to address the common problems of this region: protecting fisheries from exploitation, reducing pollution and addressing climate change.

And we work with our Pacific neighbors toward open, mutually beneficial trade, as we

have done from our first Pacific trade agreement -- the Treaty of Amity and Commerce with Thailand of 1833 -- to the ninety-four bilateral and regional trade agreements the Clinton Administration has negotiated in Asia.

## THE ASPIRATION

Six years ago, in his remarks to the first APEC Leaders Meeting in Seattle, President Clinton laid out a vision that would unite these strands of policy. He spoke of a Pacific Community that would grow in the next century and fulfill the hopes of the region's people -- for prosperity; for education and scientific progress; for health, environmental quality and the dignity of work; for the quest for peace.

It is an ambitious vision -- one which we must realize in the most diverse and complex region in the world. Consider only the economies which participate in APEC each year. They reach south from Russia's Arctic Circle across the equator to the verges of Antarctica, and west from the Chinese desert to New England fishing towns. They include high-tech industrial nations, economies in transition, and least developed countries. They use ten different alphabets. They speak -- this is astonishing -- 3,107 of the world's 6,653 recognized languages. They practice all the world's great religions; they look back to traditions as varied as the Indian and Confucian classics, the European enlightenment and the modern immigrant experience.

But it is a vision we can realize -- and six years later we have begun to make it reality. We inaugurated an annual summit process that brings together a remarkable group -- -- imagine a meeting just ten years ago which included Russia, China, Taiwan, South Korea and Vietnam, not to mention ourselves. We have set a goal of "free and open trade in the Pacific," to be reached in the first two decades of the next century, and taken concrete steps toward it: a monumental agreement on information technologies; many agreements on business and trade facilitation; most recently in Kuala Lumpur we approached a second historic agreement to liberalize nine industrial sectors totalling \$1.5 trillion in trade.

## THE ASIAN FINANCIAL CRISIS

It is fair, though, to say that the past year posed a most severe test for us all. Five Asian economies -- Korea, Thailand, Indonesia, Malaysia and Hong Kong -- contracted by 6% or more. Many others are in recession or close to it. Asian currencies may have stabilized, but today in some of these nations hundreds of thousands of children have left school; families have survived by selling homes and possessions; and tens of millions of people have slipped into poverty.

We have been affected as well, with a loss of \$30 billion in exports to the Pacific Rim last year, and consequently lost manufacturing jobs, declining farm incomes and pressure on import-sensitive industries. And while the solution ultimately lies with the people, governments and private sectors of the affected countries, we in the United States understand that we have responsibilities as well. We accept them.

First of all, we will remain committed to our open market and fair trade principles, and reject any broad protectionist response to the crisis. With exports to Asia off \$30 billion and a goods trade deficit at \$250 billion in 1998 and perhaps \$300 billion this year, this requires some sacrifice. We have nonetheless kept our market open, while enforcing our laws on dumping and import surges, and urged Japan, Europe and others to share the burden in special cases like steel - and for Japan to assist in the solution to the steel problem rather than contribute to it. The greatest contribution we and other industrial countries can make is to offer healthy and open markets for fairly traded exports.

Second, we will continue to support reform and stabilization packages, with the IMF at the center and augmented by the \$10 billion program we and Japan announced last November. These packages are now showing their value. As Thailand and Korea in particular have implemented their reforms, we have seen currency stability restored; growing transparency and market openness which raise investor confidence; and initial signs of a return to economic health. We applaud Prime Minister Chuan and President Kim for their courageous and successful efforts and will work with them and with Indonesia as they move ahead.

We will do our best to help ease the impact of the crisis on the most vulnerable: the poor, the unemployed, students and young people. Our Administration, helped by our business community, has offered financial assistance to Thai, Korean and Indonesian students in America. We have offered food aid packages to Russia and Indonesia. And President Clinton has called on the World Bank to double its support for job assistance, basic needs, children and the elderly.

We will review the lessons this crisis has offered, and work toward improving the architecture of the global economy, aiming at a transparent, market-based system which is less prone to instability, more effective in combatting crises when they do occur, and which offers all economies and all people a chance to share in the benefits of growth.

Finally, and perhaps most important, we will remain committed to our vision. President Clinton's concept of Pacific Community is based on fundamental American interests and values; and so it will serve us as well in crisis as in the good years. Likewise, its goals -- prosperity, a rising quality of life, political stability and peace -- are those we broadly share with Asian governments and people. And let me now turn to the Asian trade agenda and its contribution to the strategic tasks necessary to achieve that vision: an open, healthy and growing Japan; an integrated China; and the creation of a broader framework of open trade under the rule of law around the Pacific.

## JAPAN

The first task is an economic opening in Japan -- Asia's largest economy and our key military ally in Asia -- that will create a new and different partnership.

In the past forty years, our Security Treaty was the foundation of peace in the Pacific. In

the next decades, we must create an economic partnership which forms the foundation of prosperity. And to do so, Japan must act with speed and decision.

That means serving as a market for its neighbors during this crisis. Last year, as US goods exports to Japan fell by over \$7 billion, East Asian exports to Japan fell by \$20 billion -- nearly a fifth of Asia's exports to Asia's largest economy. This includes a loss of over \$1 billion in Thai exports, \$4 billion in Chinese exports and \$3.5 billion in Indonesian exports. Japan's contribution to IMF packages is welcome, but financial aid cannot replace this lost demand.

It means working with us to stop noneconomic surges of exports in areas like steel and ensure fair trade.

It means working constructively toward a meaningful agreement at the WTO on APEC's sectoral liberalization initiative, and on our preparations for a new multilateral Round of trade negotiations.

And ultimately, to lead in the region, it means reform at home. For eight years, Japanese families, businesses and consumers have suffered from economic stagnation in Japan. In the past two years, this has turned into a recession that worsens and prolongs the financial crisis in Asia. And to break this cycle and emerge as a confident and competitive economy which contributes to broader regional prosperity, Japan's government must begin with fiscal stimulus and financial reform; and at the same time make a decisive break with the regulatory webs and closed markets which slow growth.

This is where our trade agenda joins with Japan's own goals. The Japanese government has said that it hopes to replace a "bureaucrat-led culture" with an entrepreneurial society. And the bar to such a society today is over-regulation, lack of competition and tolerance of formal and informal cartels in many industrial sectors. These block imports. They also frustrate young Japanese who hope to set up their own companies and market new products and services. And they weaken the entire Japanese economy by raising the prices of things as essential to competitiveness as phone calls, power, and housing costs.

Our 35 bilateral market access agreements with Japan, in fields from agricultural commodities to insurance, high technology and manufacturing, are directed at precisely these barriers. They call for adoption of non-discriminatory, transparent laws and regulations which ease trade and encourage the formation of new businesses; elimination of anticompetitive practices; and efficient allocation of investment. Thus they offer a chance for faster growth in the future, and a greater variety of goods and services at better prices for Japanese consumers today.

The same goals are at the heart of our efforts under our bilateral Enhanced Deregulation Initiative. The agreement we reached last May sets out concrete deregulatory measures in telecommunications, housing, medical devices, pharmaceuticals and financial services sectors, and measures to strengthen competition policy enforcement and transparency. If fully implemented,

these will create opportunities for exporters and workers in America, other Pacific economies and Japan. We are now working toward agreement on a new set of deregulatory measures in these sectors and energy as well.

Trade tensions in our relationship are rising. From rice and flat glass to autos and insurance, Japan faces renewed friction and mistrust. Nothing positive, and much negative, can arise from failure to resolve issues on our trade agenda. And immensely positive things -- growth in Japan, hope for an earlier end to the Asian crisis, a strengthening of this most crucial relationship in Asia for the next century -- can come from success. The time for action is now and the time for delay long past.

## CHINA

Let me now turn to our second strategic task: that is, ensuring the full participation of China -- Asia's largest nation and fastest-growing economy -- in the Pacific and world economies. Just as the Pacific community cannot prosper without a growing, deregulated Japan, neither can it reach its full potential without an open and integrated China.

Consider how damaging was China's economic isolation during the Cold War. For nearly forty years, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

With the end of the Cold War and a continuing commitment to reform within China, this has begun to change. The next century may see a China more fully integrated into the modern world. That helps ensure peace and security by working with us on the Korean peninsula, Cambodia, and other regional conflicts. That supports and augments the world's effort to prevent the spread of weapons of mass destruction. That accepts and helps promote basic concepts of human rights. And that plays its rightful part in building prosperity for its own people and its neighbors. Together with the integration of Russia, this is an opportunity which means as much for the next century as the return of Germany and Japan to the world economy meant for the postwar era.

Our trade policy will help us grasp this opportunity -- complementing China's economic reform goals at home, strengthening Pacific prosperity, and integrating China more securely into the world economy. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications -- the infrastructure of a 21st-century economy -- remain closed, depriving China of the jobs, efficiency and innovation competition could bring to the domestic economy. And the rule of law -- as Anson Chan said last summer, the "infrastructure which enables enterprise to flourish" -- is undeveloped.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth in this crisis and the future. One index of this is our phenomenal trade deficit with China, now over \$1 billion per week. Another is that since we opened Normal Trade Relations (formerly MFN status) in 1980, our exports to China have grown by only \$9 billion -- barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to ASEAN.

The work we have underway to address the trade problems rests on specific U.S. commercial interests. But it also contributes to the broader goal: the integration of China into an international culture of open economies and the rule of law. Embedded in our agreements on market access and intellectual property are broader international norms to which China has committed: transparent laws and regulations; access to administrative or judicial decision making; curbs on arbitrary exercise of bureaucratic power. Likewise, our negotiations on China's accession to the WTO and in our bilateral discussions, are based upon international norms and practices and in adherence to accepted international rules.

The agreement on intellectual property rights is an example. It is a clear U.S. economic interest: eliminating theft through piracy of our most creative industries. But it does more than simply create an advantageous environment for U.S. business. It about access for and to America's creative industries -- books, films, music, and computer programs. And embedded in it are the seeds of important universal ideals: the development and publication of laws; consistency in decision making; recourse to law enforcement; the availability of administrative and judicial proceedings and greater transparency in the processes of government.

The foundation that this and our other bilateral agreements lay contributes toward the development of a broader and deeper concept -- which is also the basis of our negotiations on China's integration into the world trading system. China's membership in the WTO, on commercially meaningful grounds, is in our interest and in China's. Broadly speaking, WTO principles -- transparency, openness, public and enforceable commitments -- will help China's government strengthen the rule of law and create sustainable long-term growth. And the specific market access and other reforms WTO accession requires from China are no less than what other WTO members -- including many of the least developed countries -- have already done.

Premier Zhu's proposed visit this spring gives China and the United States a chance to achieve this goal. As this approaches, China has an opportunity -- perhaps the last opportunity for some time to come -- to resolve the issues which remain outstanding. We hope China will take it. We also recognize that China, once again, may decide that it is not prepared to make the commercially meaningful steps that WTO membership requires; and thus, WTO membership may not come for some time. But delay in trade reform is not an option. We will not hesitate to make sure that we are treated fairly, and we will continue to urge China to move toward the larger goals which are so important not only to ourselves and China's neighbors but China itself.

## AN INTEGRATED REGION

And that brings me to the final strategic task: creating the framework for an open and integrated Pacific region, by strengthening our critical trade relationships, addressing problems which affect the region as a whole, and continuing our work toward open trade in APEC.

We will begin by strengthening our relations with each of our trade partners. We will work closely with the ASEAN nations, which took \$48 billion in our goods exports in 1997 -- as much as China, Taiwan and Hong Kong together -- and whose initiative to accelerate the ASEAN Free Trade Area at the ASEAN summit in Hanoi last month is a very important signal to the world in this crisis. This includes continued work toward a broad commercial and trade agreement with Vietnam. We will work to help President Kim in South Korea implement his reform program, as we continue to address our market access issues. We will strengthen our already very close trade relationships with Australia and New Zealand. And we will take care to ensure that the smallest Asia-Pacific economies -- Laos, Cambodia, Mongolia, the Pacific Islands -- are full participants in our shared destiny, for example by consulting with Congress on permanent Normal Trade Relations with Laos and Mongolia this year, and seeking renewal of the GSP program for developing countries.

We will address trade problems that affect the region as a whole. We will, for example, make a special priority of improving protection of intellectual property rights. This will include ensuring full implementation of Uruguay Round IPR commitments for WTO members, and enforcing our bilateral agreements with China, Taiwan and most recently Vietnam. We will also intensify our fight against pirate production and distribution of newly developing optical media technologies, which threatens not only American but Asian entertainment and software industries: when pirated DVD versions of "Titanic" are sold on the street, so are pirate versions of "Red Lantern" and Jackie Chan. Likewise, use of unlicensed computer software by government entities is growing in Asia and elsewhere. This is especially pernicious, since it represents piracy by those entrusted with enforcing the laws.

And we will continue our broad regional effort to achieve free and open trade in the Pacific through the APEC forum. It is fair to say that we had hoped for more in the nine-sector liberalization initiative APEC adopted in Vancouver, and are deeply disappointed by Japan's recalcitrance on wood products and fisheries. However, we were also very much impressed by the commitment and bold offers in sensitive areas made by the ASEAN countries and by Korea -- nations hit very hard by the financial crisis. Even the partial result we reached offers something to every Pacific economy; and it demonstrates APEC's potential as a catalyst for world trade liberalization, as we take the tariff elements to the WTO.

## THE ASIA-PACIFIC FUTURE

This set of agreements, even incomplete, is really remarkable -- because it was concluded in the darkest and most threatening economic environment we have seen in half a century. Very

few would have imagined anything like it possible -- many more would have predicted a wave of protectionism.

And that shows me something very important. The crisis has tempted each of us to turn inward. Raise trade barriers. And hope we can escape the problems our neighbors face. This is the response of fear -- and it is a powerful temptation.

But together we have rejected this course. We concluded instead that the right response is to be confident. To be open. To understand our responsibilities to one another. To rely on the fortitude, work ethic and good sense of our people. To understand that, as President Estrada of the Philippines said a few months ago:

“There is a compelling need for democratic means, for more transparent economic and banking practices, for more educational opportunities, for a chance to compete fair and square in a level playing field ... These are the demands for market and political openness and transparency that we hear from simple people, from people frightened by economic forces beyond their control.”

## CONCLUSION

That is the road to the Asia-Pacific future. Fair and open economies; equal opportunity; individual freedom; the rule of law.

And it is the essence of what we hope to achieve in trade policy, whether with Japan, with China, in APEC or elsewhere. It is by no means easy to achieve; but it is entirely realistic.

Because while the people of the Pacific nations may be very different -- American farm families, Thai construction workers, Japanese entrepreneurs, Chinese high school students -- they are alike in what is most important.

They share the fear and doubt this year of crisis has raised. They hope for signs of strength, confidence and better times to come. And they have confidence that, with fair treatment and the chance to use their own skills as best they can, they can succeed.

That is what our trade agenda ultimately offers; it is the heart of our vision of Pacific Community. And thus it may be an ambitious goal; but it is the right goal.

We will reach it in time.

Thank you very much.